

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE APPLICATION OF MARTIN GAS,)
INC., FOR AN ADJUSTMENT OF RATES) CASE NO. 9291

O R D E R

IT IS ORDERED that Martin Gas, Inc. ("Martin") shall file an original and seven copies of the following information with this Commission by July 3, 1985, or within 2 weeks of the filing of this Order, with a copy to all parties of record. In the event the requested information is not available, Martin shall state explicitly why the information cannot be furnished. Include within the response to each item the witness who will be available at the public hearing to testify on that particular issue. If neither the response nor a motion for an extension of time is filed by the stated date, the case may be dismissed.

1. In reference to the depreciation schedule included in Table No. 6 of the application, \$45,373 of distribution lines are being depreciated over 20 years. This appears abnormal since all other distribution lines in Martin's system are depreciated over 33 and 40 years. Please provide any reasoning which supports the 20-year useful life rather than a 40-year useful life.

2. In reference to Schedule No. 1, column 4, in Table No. 1 of the application, the \$8,483 net operating income is based on an after-tax rate of return on rate base of 12 percent. The

conceptual framework of rate-making as it applies to rate of return on rate base requires a collateral amount of funds invested. For the test period, Martin has a negative equity position and no long-term debt. Please provide any reasoning which supports the viewpoint that a rate of return should be allowed on net deficit invested funds.

3. The Commission has found in some instances a rate of return should be based on an operating ratio methodology where fair and reasonable rate-making expenses are divided by some fraction to arrive at gross revenues and provide a fair and reasonable rate of return to the utility. Please provide the following items:

a. Any reasoning which is contrary to a return based on an operating ratio.

b. The amount of all unused investment tax credits and a description of the assets to which the credits pertain.

4. The Commission has taken the position in numerous Orders to encourage consumption of locally-produced gas. Martin is in the fortunate position of having a local supplier, Southeastern Gas Co., at a very favorable \$.14 per Mcf rate. What efforts has Martin undertaken to increase the use of locally-produced gas? Why may it not be possible to increase sales of locally-produced gas?

5. All gas received into Martin's system is 1,225 btu gas. Standard appliances such as stoves, water heaters, and furnaces are manufactured to utilize 1,000 btu gas. To properly utilize the hotter gas, standard appliances must be modified and line

pressure must be reduced. Furthermore, there may be health risks associated with the incomplete combustion. Through the modification of appliances and reduced line pressure, burner-tip efficiency could be improved by as much as 20 percent and health risks could be reduced. What programs or efforts has Martin undertaken to educate Martin's customers of the potential gains in efficiency and reduction in health risk associated with appliance modification and reduced pressure? If no program exists, why is it not feasible?

6. According to the test-period annual report, unaccounted-for gas (line loss) was 19.8 percent of deliveries. The Commission in numerous Orders has not allowed for rate-making purposes unaccounted-for gas in excess of 5 percent of deliveries. Please provide any evidence which is contrary to disallowing unaccounted-for gas in excess of 5 percent for rate-making purposes.

7. Please provide a breakdown of Other Deferred Debits, Account No. 183, for the test period. Please provide the nature of the debit, the date or dates incurred, the business purpose, the amortization period, and the account to which the amortized portion is charged.

8. In reference to the adjustments of <\$83,388> to test-period operation and maintenance expenses, \$128 to test-period depreciation and depletion expenses and <\$1,465> to taxes other than income taxes, listed on page 2 in Table 2 of the application, please disaggregate these adjustments. For the adjustment to operation and maintenance expense, provide for each line item, according to the Uniform System of Accounts for Class D gas

utilities, the amount expensed during the test period, the adjustment, and the resulting pro forma amount. Please also provide for each adjustment the calculation and a complete explanation of the underlying facts and assumption of each adjustment.

9. Is Martin a sub-chapter "S" corporation for tax purposes? Please provide any evidence or reasoning for the corporate tax status elected.

Done at Frankfort, Kentucky, this 21st day of June, 1985.

PUBLIC SERVICE COMMISSION

Richard D. Hermann
For the Commission

ATTEST:

Secretary